

CHAPTER 6

ACCOUNTING FOR EXPENSES, EXPENDITURES

SCOPE

This chapter defines and details regulations and business processes for the various types of payments to vendors from the State of Indiana.

Note to units processing payments through the AOS, but not on the ENCOMPASS system as of July 1, 2009: Manual forms for these processes are available on the AOS website. Business processes are defined in this chapter.

CHAPTER 6	1
SCOPE	1
6.1 STATUTORY AUTHORITY	5
6.1.1 Payment of Liabilities	5
6.1.2 Documentation; itemization of vouchers	5
6.1.3 Pre-audits; post-audits	6
6.1.4 Late Payment Penalties	6
6.2 ACCOUNTING THEORY	7
6.2.1 Accounts Payable Liability	7
6.2.2 Payment of Liability	7
6.2.3 Expenditure/Expense Categories	7
6.3 INTERNAL CONTROLS	8
6.3.1 ENCOMPASS Roles	8
6.3.2 Basic Internal Control Procedures for Handling of Payables	8
6.3.3 Workflow approvals	9

Confirm that PO vouchers are copied from PO receipts.....	9
6.4 BUSINESS PROCESSES	9
6.4.1 Requisitions, Purchase Orders, Receivers	10
6.4.2 PO Voucher, Non-PO Voucher	10
6.4.2.1 PO Voucher	10
6.4.2.2 Non-PO Voucher (claim voucher)	10
6.4.2.3 Definition of Date Fields	10
6.4.2.4 Splitting Invoices by Multiple Agencies	11
6.4.2.5 Approved Invoice Numbering System	11
6.4.2.6 Freight Charges.....	12
6.4.3 Voucher Build Batches.....	12
6.4.3.1 Rejection of Individual Vouchers	13
6.4.4 High-Volume Payment Batches.....	13
6.4.4.1 Rejection of Individual Payments	13
6.4.5 Approvals; Documentation Requirements.....	13
6.4.5.1 Automatic Routing for Approval.....	13
6.4.5.2 Document Tolerance.....	13
6.4.5.3 Budget Checking.....	14
6.4.5.4 Documentation.....	14
6.4.5.5 Close-Vouchers	14
6.4.5.6 Vouchers On-Hold.....	14
6.4.5.7 Refund of Prior Year's Expenditure	14
6.4.6 Auditor of State Voucher Payment Processes	14
6.4.6.1 Pre-audit function.....	14
6.4.6.2 Special Attention Voucher Processing	14
6.4.6.3 EFT Payments	14

6.4.6.4	<i>Payment by State Warrant</i>	15
6.4.6.5	<i>Warrants and Warrant Types</i>	15
6.4.6.6	<i>Timing of Payments</i>	15
6.4.7	<i>Certain Restrictions on Payment with Public Funds</i>	15
6.4.7.1	<i>Unallowable Costs</i>	15
6.4.7.2	<i>State Sales Tax</i>	16
6.4.7.3	<i>Purchase Premiums, Rewards, etc.</i>	16
6.4.8	<i>Returned Warrants; Lost Warrants; Returned ACH Payments</i>	16
6.4.8.1	<i>Processing for Returned Warrants</i>	17
6.4.8.2	<i>Lost Warrant – Re-write Procedures</i>	17
6.4.8.3	<i>Returned ACH Payments</i>	17
6.4.9	<i>Procurement Cards</i>	17
6.4.9.1	<i>M-5 Fuel Cards</i>	18
6.4.10	<i>SDO (Special Disbursing Officer) Payments</i>	18
6.4.10.1	<i>Application</i>	18
6.4.10.2	<i>Approval and Local Purchase Number</i>	18
6.4.10.??	<i>SDO Checking Account</i>	19
6.4.10.4	<i>Other Regulations and Restrictions</i>	19
6.4.10.5	<i>SDO Record Retention</i>	20
6.4.10.6	<i>Amount of SDO Advance</i>	20
6.4.10.7	<i>Interest Earned on SDO Account – Purchase Discounts</i>	20
6.4.10.8	<i>Debit Cards</i>	20
6.4.10.9	<i>Change in SDO Officer</i>	20
6.4.10.10	<i>Accounting for SDO Funds</i>	21
6.5	<i>APPENDICES</i>	24
6.5.1	<i>Chart of Expense Accounts</i>	24

6.5.2	<i>Expense Related Reports</i>	24
6.5.3	<i>SDO Reconciliation Examples (2)</i>	26

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6.1 STATUTORY AUTHORITY

6.1.1 Payment of Liabilities

IC 4-7-1-2, **Powers and duties**, states in part: “The auditor of state shall do the following: (8) Draw warrants on the treasurer of state or authorize disbursement through electronic funds transfer in conformity with IC 4-8.1-2-7 for all money directed by law to be paid out of the treasury to public officers or for any other object whatsoever as the warrants become payable. Every warrant or authorization for electronic funds transfer shall be properly numbered.

IC 5-13-5-3, **Drawing warrant**, states: “All warrants for the payment of public funds of the state shall be drawn by the auditor of state on the treasurer of state.”

IC 4-7-1-5, **Duties of auditor upon issuing warrants or authorizing electronic funds transfer**, states in part: “Whenever any person is entitled to draw money from the state treasury, the auditor may draw a warrant in his favor on the treasurer of state or authorize an electronic funds transfer in conformity with IC 4-8.1-2-7.”

IC 4-13-2-20(a), **Advance payments; special disbursements**, states: “Except as otherwise provided in this section, IC 12-17-19-19, or IC 12-8-10-7, payment for any services, supplies, materials, or equipment shall not be paid from any fund or state money in advance of receipt of such services, supplies, materials, or equipment by the state.” Stated further in (d): “The auditor of state may, with the approval of the budget agency and of the commissioner of the Indiana department of administration: (1) appoint a special disbursing officer for any agency or group of agencies whenever it is necessary or expedient that a special record be kept of a particular class of disbursements or when disbursements are made from a special fund; and (2) approve advances to the special disbursing officer or officers from any available appropriation for the purpose.” Financial Management Circular #96-3 delegated the authority of the budget agency described above in IC 4-13-2-20(d) to the Department of Administration.

IC 4-13-2-14.8, **State contractor or vendor; electronic funds transfer of payments; waiver**, states in (a): “Notwithstanding any other law, rule, or custom, but subject to subsections (c) and (d), a person who has a contract with the state or submits invoices to the state for payment shall authorize in writing the direct deposit by electronic funds transfer of all payments by the state to the person. The person's written authorization must designate a financial institution and an account number to which all payments are to be credited.”

6.1.2 Documentation; itemization of vouchers

IC 4-10-11-1, **State departments; disbursement of money by vouchers . . .**, states: “The disbursement of moneys for any purpose by the departments of the state government shall be by vouchers specifically itemizing in every particular the different purposes for which the treasury warrant is authorized. These vouchers shall not be approved by any officer or officers authorized to approve the same, unless so itemized, giving minutiae of detail, and when vouchers are presented to the auditor of state for warrants, they shall be accompanied by said itemized accounts and statements”

IC 4-10-12-1, **Itemized vouchers; expenditure for purpose appropriated**, states: “Where an appropriation is made to any officer or department of state government for a specific employment or

purpose, itemized vouchers showing the proper expenditure of the appropriation for the purpose named shall be made to the auditor of state before a warrant covering the amount due can be drawn on the treasurer of state.”

6.1.3 Pre-audits; post-audits

IC 4-13-2-7, **Powers and duties of auditor of state**, states in part in (a): “Subject to this chapter and other laws not inconsistent with this chapter, the auditor of state shall, respecting all agencies of the state, do the following: (2) Examine every receipt, account, bill, claim, refund, and demand against the state arising from activities carried on by agencies of the state, approve each legal, correct, and proper claim, designate the account to be charged therefore, and issue the auditor's warrant in payment thereof. The auditor of state may authorize the disbursement through electronic funds transfer in conformity with IC 4-8.1-2-7. All warrants and electronic funds transfers shall be payable to the vendor or claimant and in no instance shall the auditor issue any warrant or make any electronic funds transfer payable to an officer or agency in payment of several claims where the officer is to distribute or pay to the several claimants the amount due, except in the case of special disbursement officers as provided for in this chapter. However, the auditor of state shall not be required to audit claims for any refunds made pursuant to IC 6-6-1.1 and IC 6-6-2.5.” IC 4-13-2-7(e) further states: “This subsection applies to a payment of less than five thousand dollars (\$5,000). Notwithstanding any other law, the auditor of state may elect to: (1) not preaudit a payment; and (2) process the payment with the state agency authorizing the payment. The state agency is accountable to the state board of accounts under the board's post payment auditing procedures.”

6.1.4 Late Payment Penalties

IC 5-17-5-1, **Penalty for late payments of amounts due on public contracts**, states: (a) “Except as provided in section 2 of this chapter, every state agency and political subdivision shall pay a late payment penalty at a rate of one percent (1%) per month on amounts due on written contracts for public works, personal services, goods and services, equipment, and travel whenever the state agency or political subdivision fails to make timely payment. (b) Except as provided in subsection (c), for the purposes of this section, payment is timely if: (1) a check or warrant is mailed or delivered on the date specified for the amount specified in the applicable contract documents, or, if no date is specified, within thirty-five (35) days of: (A) receipt of goods and services; or (B) receipt of a properly completed claim.”

IC 5-17-5-2, **Exemption; "good faith dispute" defined**, states: “Section 1 of this chapter does not apply to the following: (1) Interagency or intergovernmental transactions. (2) Amounts payable to employees or prospective employees of state agencies or political subdivisions as reimbursement for expenses. Claims subject to a good faith dispute, if before the date of timely payment notice of the dispute is: (A) sent by certified mail; (B) personally delivered; or (C) sent in accordance with the procedure in the contract. (4) Contracts entered into before September 1, 1983. (5) Contracts related to highway or road construction, reconstruction, or maintenance, if: (A) the Indiana department of transportation authorizes partial progress payments under IC 8-23-9-14; and (B) each progress payment does not exceed five hundred dollars (\$500). (6) Claims, contracts, or projects that are to be paid for exclusively with federal funds. (b) As used in subsection (a)(3), "good faith dispute" means: (1) a contention by the state or political subdivision that goods delivered or services rendered were: (A) of less quantity or quality than ordered or specified by contract; (B) faulty; or (C) installed improperly; or (2) any

other reason giving cause for the withholding of payment by the state or political subdivision until such dispute is settled.”

6.2 **ACCOUNTING THEORY**

Definitions of Expenditure/Expense

- *Expenditure – a liability incurred in a governmental fund*
- *Expense – a liability incurred in a proprietary or trust fund*

6.2.1 **Accounts Payable Liability**

As discussed in Chapter 8, **Purchasing**, the encumbrance of allotted appropriations begins with the purchasing procedures as processed through ePro. Once the receiver is pulled to an online voucher and has passed the Document Tolerance and Budget Check processes, it is posted as a payable liability {Credit(-)} in the general accounting ledger (GL) and, an expense in an equal amount is posted {Debit(+)}

If a purchase is not processed through ePro, the payable liability (Credit) and associated expense (Debit) will be generated when the voucher (vendor invoice) is entered and posted in the Accounts Payable (AP) module.

6.2.2 **Payment of Liability**

When a payment of a liability is made to a vendor with either an AOS Warrant or ACH payment, the payable liability will be reduced (+) along with a reduction of cash clearing (-). When the payment clears the banks back to the State, the cash clearing will be reduced (+) along with a reduction of cash (-).

6.2.3 **Expenditure/Expense Categories**

Account codes used to classify and record expenditure transactions begin with a 5. The second digit of the account is the major category, or point, of expenditure.

- **51XXXX - PERSONAL SERVICES**
Includes payments for salaries and wages to officers and employees of the state (either regular or temporary), the employer's share of social security, health insurance, life insurance and retirement fund contributions, payments for compensation awards, and special payments for expert service. It also includes salary per diem paid to commission and board members.
- **52XXXX – UTILITIES**
Includes detail of payments for utility charges, including telecommunication services.
- **53XXXX – SERVICES PROVIDED EXTERNALLY BY CONTRACT**
Includes detail of payments to outside parties to provide certain services, ranging from consulting to maintenance, security, training, insurance, construction, etc.

- **54XXXX – SUPPLIES, MATERIALS, & PARTS**

Includes detail of payments for various supplies, materials and parts

- **55XXXX – CAPITAL ASSETS, INCLUDING INFRASTRUCTURE**

For purchases of capital assets. To assure that a capital asset valued at \$500 or greater with a useful life greater than one year is added as an asset in Asset Management (AM), the asset profile, tag number, location and custodian should be entered in ePro prior to the voucher entry. If the asset is related to a project, the Project field should be included also. For assets not to be included in AM, this information should not be included.

- **56XXXX – DISTRIBUTIONS TO OTHER GOVERNMENTAL UNITS**

Reserved for distributions from the State of Indiana to local (or other) governmental units; generally used to distribute the various tax revenues collected on behalf of these units.

- **57XXXX – GRANTS TO OTHER GOVERNMENTAL UNITS OR EXTERNAL ENTITIES**

Reserved for grants to other governmental units and other external entities.

- **58XXXX – SOCIAL SERVICE PAYMENTS**

Includes direct and indirect social service type payments, including child support distributions.

- **59XXXX – ADMINISTRATIVE AND OPERATING COSTS**

Includes a wide variety of administrative and operating costs, such as rentals, licenses, fees, settlements, and travel costs

6.3 INTERNAL CONTROLS

6.3.1 ENCOMPASS Roles

Separation of duties is critical to internal control for processing payables and expenses (or expenditures). Care must be taken to assure that all invoices are recorded timely and accurately and that all purchases are authorized. ENCOMPASS roles designed to provide this assurance are shown in flow charts and discussed in Chapter 2, Internal Controls. Those with workflow approvals are responsible for certifying the accuracy of all information on the document they are approving.

6.3.2 Basic Internal Control Procedures for Handling of Payables

- *The person verifying the count of product and entering the receiver into the system should be independent of both the purchasing and invoicing functions. Exceptions to this rule are granted by the internal control group in certain situations where the actual receiver of the product does not have system access; in these cases, the actual receiver must sign and date the bill of lading,*

pass it on to the AP Receiver, who is responsible for retaining these documents for audit purposes.

- All purchase orders and receiving reports should be matched to invoices, with follow up on inconsistent information.
- Individuals independent of the purchasing and receiving functions should follow up on mismatched or unmatched, missing, or duplicate items.
- Vendor statements should be reconciled to accounts payable items.
- Returns and allowances credit memos should be matched to shipping orders and/or vendor communications.
- Individuals independent of the accounts payable function should follow up on unmatched shipping orders for returned goods and related receiving reports and invoices and resolve missing, duplicate or unmatched items.
- Any subsidiary ledgers should be reconciled with purchase and cash disbursement transactions, and differences resolved.
- Access to accounts payable and related files should be restricted.
- Warrants and remittance advices should be verified and mailed without allowing them to return to the staff that prepared claims or approved the transactions for payment.
- Warrants should be verified in a timely manner and retained in a secure location until mailed.

6.3.3 Workflow approvals

An approver role should not be taken lightly, as this is a very important segment of the internal control process. A few basic rules apply when assigning these roles:

- An approver should be at a higher level of authority than the originator of the transaction; exceptions might be made if the approver is 1) in another department and 2) has a working knowledge of the accounting and recording of the transaction. However, the approver should never be at a lower level of authority.
- An approver is responsible for authorizing the payment and for certifying the accuracy of all information on the transaction, including, but not necessarily limited to:
 - Chartfield values
 - Dollar amount
 - Vendor information, including remit to address

6.4.1 **Requisitions, Purchase Orders, Receivers**

The preferred method of purchasing products and services for the State as developed through ePro is outlined in Chapter 8, Purchasing. In the ENCOMPASS financial system, an ePro purchase will begin as a pre-encumbrance, will be converted to an encumbrance through a purchase order, and will ultimately become a liability (account payable) when the product is received and posted in the system.

6.4.2 **PO Voucher, Non-PO Voucher**

A PO voucher results from a purchase initiated in ePro; a non-PO voucher, under \$500, results from a purchase made and approved outside the ePro system. The processing of both is similar, both will be subjected to an automatic budget and document tolerance check, both will be routed to an agency approver before the payment can be submitted to the AOS for payment.

6.4.2.1 **PO Voucher**

The subsequent step to processing a payment which was initiated through the ePro process is the online entry of the invoice for a PO Voucher. Since all related accounting information was included throughout the ePro process, this detail must be accessed and copied for the payment process. The receiver will provide the detail of whether the ordered items were received in total or a partial shipment. This should be compared with the invoice and differences should be resolved. If an invoice is received prior to a receiver being processed, the voucher should be entered and placed on 'hold' until such time as the receiver is available. Agencies should resolve problems with damaged or missing product with vendors; if a resolution cannot be reached, contact IDOA procurement for assistance.

6.4.2.2 **Non-PO Voucher (claim voucher)**

If a purchase, under \$500 is approved and made outside the ePro system, the online entry of the invoice requires the entry of all required fields and accounting detail. A separate voucher is required for each payee claim (invoice). Itemization of separate purchases, categories and account codes should be entered on separate lines. Be sure to note the "estimated no. of invoice lines" and, if a capital asset purchase, verify that the account code and profile ID are compatible. A "received date" must also be entered to record the date the item or service was received.

The use of non-PO vouchers for the purchase of items and services is strongly discouraged, as the ePro system for purchasing will result in more complete tracking and recordkeeping information.

6.4.2.3 **Definition of Date Fields**

- **Accounting Date** – The date that the voucher is created in the ENCOMPASS system. This must be within the current accounting period.

- *Received Date* – The date the product or service being billed for was actually received by the State. In the case of a service, the last day the service was rendered should be used. Utility billings have a “service to” date; if no such date is included for service contract billings, enter the last day of the “billed for” month.
- *Invoice Date* – The actual vendor invoice date. All invoices should be date stamped immediately upon receipt to resolve possible future disputes. This stamped date is NOT to be entered in the system. CAUTION: The payment of interest is calculated by using the later of Invoice Date or Receiver/Receipt Date. The possibility exists that a vendor might delay sending an invoice, preventing the submission of a timely payment, but back-date the invoice prior to the receiver date, thereby causing the receiver date to be used for this calculation and making it impossible to prevent a ‘late’ payment. If this occurs, CONTACT THE VENDOR to establish a reasonable invoice date.
- *Scheduled date* – The date the payment is scheduled to be processed.. This date is calculated as the number of days after the Invoice Date according to the payment terms of the Purchase Order, if any, or of the Vendor.

6.4.2.4 Splitting Invoices by Multiple Agencies

If an agreement exists between agencies that the accounting for a payment will be split, this should be accomplished by entering separate accounting distribution lines on the Invoice, using different BU identifying numbers for the various distributions. Approvals will be routed to the BU affected by the entry.

Note:, ID bills are to be issued ONLY by Internal Service funds, and General Ledger entries should be limited to those distributions not possible in the subsystems.

6.4.2.5 Approved Invoice Numbering System

General Rules for Invoice Numbering

- DO NOT use dashes in the account number.
- DO NOT use spaces, slashes or dashes in date formats.
- DO use punctuations and/or spaces located in vendor created invoice numbers
- DO enter the invoice number in all CAPS.
- The ENCOMPASS invoice number field is 30 characters

If you have an invoice that does not meet the criteria described below, contact InAuditorofStatePayables@auditor.in.gov for further assistance.

6.4.2.5.1 Invoice Number Available

- If the invoice contains an ‘invoice number’, enter the exact alpha/numeric value in the invoice number field in ENCOMPASS. DO NOT make any additions, subtractions, or alter this value in any way. Examples: 123456; 12A3456, 12-3456; 12 3 456.

- If an agency is responsible for creating payee invoices, the agency may devise a numbering system and treat those invoices received with an actual 'invoice number'. DO NOT use payee SSN or EIN numbers.
- 6.4.2.5.2 Account Number Available, No Invoice Number If an 'account number', but no 'invoice number', enter as invoice number the account number followed by a space and the date of service. Examples: 0003456789 OCT08; or 003456789 101008.
- DO NOT use vendor SSN or EIN numbers.

6.4.2.5.3 No Invoice Number, No Account Number

- Original invoices (NOT agency created payee invoices as in 6.4.2.5.1 above) with neither an invoice number nor an account number should be entered using the agency acronym (as on State ID), space, date of service, space, and division (as applicable). Examples: DOC OCT08 EDUCATION; DOC 100108 EDUCATION.

6.4.2.5.4 Travel Voucher

- Travel vouchers should have the invoice number entered as the last name of the traveler, space, beginning date of trip, space, ending date of trip. Examples: Smith 071408 071408; Smith 071408 072408.

6.4.2.6 Freight Charges

- Freight charges for assets should be entered in the Freight Charge box. If multiple assets are included in the purchase, this charge will be pro-rated for each individual asset.
- If not an asset, use a separate voucher line to enter the asset to prevent freight from being added to the product (example – copy machine paper)

6.4.3 Voucher Build Batches

This process is used for vendor payments which are interfaced from an agency client-based system, such as:

- Department of Education Tuition Support payments
- Distributions to local governments
- HIPPA (Department of Health) payments
- Payroll Vendor Payments

Uploads from other systems

Note: If a voucher on a voucher build control group contains interunit lines not yet approved, that voucher will be removed from the group if submitted to AOS for payment.

6.4.3.1 Rejection of Individual Vouchers

If one individual voucher in a batch is rejected, only that voucher will be returned to the agency for correction. All other vouchers will be processed as scheduled.

6.4.4 High-Volume Payment Batches

This process, with prior AOS approval, is used for non-vendor payments only. Included are payments such as:

- *Tax refunds (Department of Revenue)*
- *Child support distributions (Department of Child Services)*
- *STAR refunds (Bureau of Motor Vehicles Commission)*
- *Refunds other than tax*
- *Recipient reimbursements (FSSA, DOH)*
- *Third-party garnishments*

6.4.4.1 Rejection of Individual Payments

If one individual payment in a high-volume batch is rejected, the entire batch will be returned to the agency for correction.

6.4.5 Approvals; Documentation Requirements

Regardless of the method of voucher entry, certain verifications and approvals must be processed prior to submission for payment to the AOS.

6.4.5.1 Automatic Routing for Approval

Automatic scheduled budget checking and document tolerance checks through ENCOMPASS will occur at pre-scheduled times for all eligible documents in the system. Current schedules are posted

6.4.5.2 Document Tolerance

For most payable transactions, a variance not greater than 10% or \$500, whichever is lower, between a purchase order and resulting invoice is considered acceptable without further review in this area. If this variance is exceeded, the document will route to an agency approver for an exception approval or voucher adjustment. If a transaction is greater than the tolerance level, a change order should be issued in ePro.

6.4.5.3 Budget Checking

If a transaction fails the automatic budget checking process, you should notify your agency budget contact for further consideration and possible action by both your agency and the budget agency.

6.4.5.4 Documentation

Once a payment is approved by the agency approver, the transmittal pages are ready to print. After printing the transmittal page from ENCOMPASS, support documentation must be attached. The payment package may then be delivered to the AOS service center for processing. Be sure to allow adequate time for the pre-audit function by the AOS.

6.4.5.5 Close-Vouchers

This process is available on the ENCOMPASS system, but should be rarely used. Errors should be corrected in the voucher rather than closing and re-originating the voucher.

6.4.5.6 Vouchers On-Hold

Vouchers that have been put 'on hold' in the system should be a high priority to complete, correct, or close within a reasonable amount of time, at least monthly. No vouchers should remain 'on hold' at June 30.

6.4.5.7 Refund of Prior Year's Expenditure

The actual processing of a refund from a vendor is described in Chapter 4, Accounting for Revenues. However, as this is expense related, it is important to note here that the accounting for these refunds is as follows:

- Refund of current year expenditure – will reduce applicable expense account (Credit '-')*
- Refund of prior year expenditure – same as current, except reference prior budget year*

6.4.6 Auditor of State Voucher Payment Processes

6.4.6.1 Pre-audit function

As described in 6.1.3, the AOS will perform certain pre-audit activities prior to processing a payment. Rejected payments will be returned to the agency for resolution.

6.4.6.2 Special Attention Voucher Processing

For emergency situations only, AOS procedures allow for same day processing, with prior approval from the Director of AOS Accounts Payable. Please be very selective when submitting a Voucher for this process.

6.4.6.3 EFT Payments

As noted in 6.1.1 all vendor payments shall be made by an Electronic Funds Transfer (EFT) through an Automated Clearing House (ACH) , unless a waiver is granted under the law,.

6.4.6.4 Payment by State Warrant

Only payment warrants and ACH remittance advices specifically designated by the agency in ENCOMPASS will be returned to the agency for distribution. This is determined by the Payment Handling Code. All others will be mailed by the AOS or, if the vendor file contains an e-mail address, payment notification will be made by e-mail. As noted in 6.3.2, warrants and remittance advices should be verified and mailed without allowing them to return to the staff that prepared claims or approved the transactions for payment. Warrants should be retained in a secure location if not immediately mailed or otherwise distributed. All warrants should be mailed within one business day of receipt.

6.4.6.5 Warrants and Warrant Types

A warrant is an order to pay from the Auditor of State to the Treasurer of State and is issued on the State of Indiana's routing number only, not associated with a specific bank account. Warrant numbers always include eight (8) digits. The beginning number and color identify the type and use of the various warrants.

- Vendor and Travel Warrants –payments for services, products, rent travel reimbursements, etc. Peach in color; begin with the number 1.
- Child Support Warrants – child support payments from FSSA. Rainbow colors; self-mailers; begin with the number 2.
- Non-1099 Warrants -- high volume payments not requiring IRS form 1099. Purple in color; self-mailers; begin with the number 3.
- Tax Refund Warrants – tax refund payments from Department of Revenue. Pink in color; self-mailers; begin with the number 4.
- Payroll Warrants – salary payments for state employees. Blue in color; begin with the number 9.

6.4.6.6 Timing of Payments

In general, the ENCOMPASS system will schedule a payment in a pay cycle 35 days after the invoice date. If alternate contract payment dates are set at the purchase order level due to contract terms, payments would be scheduled accordingly. With prior approval by the AOS AP division, other exceptions may be made at either the vendor or individual payment level. Two exceptions (at vendor level) are utilities and state employees.

6.4.7 Certain Restrictions on Payment with Public Funds

Unlike funds controlled by private business, the spending of public funds is restricted by law to impose a high level of accountability on public officials approving these expenditures.

6.4.7.1 Unallowable Costs

Officials and employees who are accountable for the expenditure of public funds must exercise due diligence to assure that all such payments are in the taxpayer's interest. The following is a list, not necessarily complete, of unacceptable payments from public funds.

- *Personal items*
- *Items not related to the functions and purposes of the unit*
- *Alcoholic beverages*
- *Duplicate payments or overpayments*
- *Dues and subscriptions in an individual's name*
- *Personal long distance telephone calls (should not be billed to state network)*
- *Personal cellular telephone calls that cause the unit to maintain a calling plan in excess of business needs*
- *Personal cellular calls not in compliance with the Information Resources Use Agreement, which provides for de-minimus personal use*
- *Personal use of state debit or credit cards or SDO checks*
- *Personal use of state automobile, unless allowed by specific regulation*

6.4.7.2 State Sales Tax

When an allowable purchase is made from public funds, state agencies are exempt from payment of state sales tax. However, in the case of an employee's approved purchase from personal funds, to be reimbursed from public funds, state sales tax is to be paid by the employee and reimbursed with public funds. This practice should be minimized and used only when other purchasing methods are not possible.

6.4.7.3 Purchase Premiums, Rewards, etc.

Any compensation, premium, bonus, reward, or product earned as a result of the purchase of goods or services by the governmental unit becomes the property of the governmental unit.

6.4.8 Returned Warrants; Lost Warrants; Returned ACH Payments

Occasionally a warrant, or other form of payment, is returned and must either be re-deposited into a fund or, if lost or destroyed, a replacement warrant issued to the payee. Except for payroll warrants, a lost warrant cannot be issued until 30 days after the original issue date. However, if the payee can produce part of a partially destroyed warrant, it will be issued immediately. Procedures for processing are outlined in the following sections.

6.4.8.1 Processing for Returned Warrants

If the return is due to an address change and the new address is known, or can be easily obtained by agency personnel, the agency should mail the warrant to the new address and, if necessary, advise the AOS of the address change.

If returned for any other reason, State Form 46645, Report of Returned Warrants, should be completed and delivered to the AOS Service Center (Rm. 144, State House) in an 8 ½ by 11 inch envelope. Be sure to complete the following fields on the form:

- *Warrant number – on the upper right corner of the warrant or stub. Use one line for each warrant.*
- *Credit amount – the amount of the warrant returned.*
- *Grand Total – total of all warrants or, "Continued" if continued on a subsequent page.*
- *Official signature – must be original signature; date, agency name, and business unit number are also required.*
- *Additional Information -- should contain an explanation for the cancellation or reissue of the warrant. A contact person's name and number, if not the agency official, should be included in this section.*
- *Attach all warrants to the front of the report in the order of presentation on the form.*

The AOS Lost Warrant Coordinator will process your returned warrants and mail back the yellow copy of the report of returned warrants form. On your returned copy, you will notice on the right side of the form a column titled "Auditor's Use" and, just below, three smaller columns titled "Date Cleared," "Date Issued," and "Payroll." The date cleared column will have the date the warrant was voided/cancelled, i.e., the accounting date. The date issued column will have the date of the reissued warrant, if applicable. The payroll column will have the initials of the person who processed this transaction if the warrant being returned was a payroll warrant.

6.4.8.2 Lost Warrant – Re-write Procedures

Before a lost warrant can be replaced, the payee must complete State Form 42850, Affidavit for Lost or Not Received Warrant. A signature notarization is required and only the original form will be accepted. Except for payroll warrants, a 30 day waiting period will apply.

If a vendor has lost/destroyed a warrant, it is the paying agency's responsibility to send original form SF42850 to the vendor for completion and submission.

6.4.8.3 Returned ACH Payments

A returned ACH payment will be researched by AOS staff and a repayment will be issued to the vendor by the AOS.

6.4.9 Procurement Cards

The Department of Administration, in cooperation with the Auditor of State and other regulatory agencies, is currently testing the payment of state liabilities with a procurement card, more commonly known as a P-card. Payments made through this process, when established, will be recorded and approved in the ENCOMPASS financial accounting system.

6.4.9.1 M-5 Fuel Cards

If fuel purchases are made at a State fuel pump with an M-5 Card Reader, paper receipts are not required to be obtained for accounting records or audit.

6.4.10 SDO (Special Disbursing Officer) Payments

Statutory Authority (see 6.1.1), also in this section:

IC 4-13-2-20(d), states in part; “unless otherwise approved by the commissioner of the Indiana department of administration, the special disbursing officer must be the same individual as the procurements agent . . .”

IC 4-13-2-20(h) states: “A special disbursing officer is not personally liable for a check issued under subsection (g) if: (1) the officer complies with the procedures described in subsection (g); and (2) funds are appropriated and available to pay the warrant.”

6.4.10.1 Application

State Form 49068, Request for SDO Account Establishment, Adjustments And New Officer, is used to request the establishment of (and subsequent changes to) an SDO account. A letter of justification is required to be included if any of the following is being requested:

- Use of SDO for expense categories 1 or 5 as noted in the next section
- Use of SDO for travel advances to employees, category 9
- SDO advance over \$1,000
- Single purchase limit over \$500
- The individual named as Special Disbursing Officer is not to be the agency Procurement Agent.
- An expansion, increase or decrease of the fund

6.4.10.2 Approval and Local Purchase Number

After the completion of processing by IDOA, the commissioner shall convey in a letter to the agency the exact purpose(s) for which the SDO funds may be used. State Form 47911, Authority for Local Purchases, records such spending authority and limitations on purchases from the SDO account. Authorized levels of SDO accounts and the maximum amount which may be expended on a single

purchase will also be noted. These restrictions are not to be circumvented by dividing purchases to avoid exceeding the limit or by purchasing unauthorized items or services.

A separate Local Purchase Number (LPN) is assigned to each SDO advance, as is indicated at the top right of the approval form (SF47911). Subsequent changes in officers assigned, advanced amounts, or authority granted reference the assigned LP number.

6.4.10.?? SDO Checking Account

After the SDO Advance is approved, the SDO Officer will establish a checking account with an approved Financial Institution. There will be one checking account for each SDO advance; SDO advances will not be commingled or split into several checking accounts. If multiple checking accounts are required, a request for multiple SDO advances must be made.

6.4.10.4 Other Regulations and Restrictions

State procurement and other state financial laws and regulations also apply to SDO expenditures.

6.4.10.4.1 Product Restrictions

SDO funds shall NOT be spent on:

- *Items available on any Quantity Purchase Agreement (QPA).*
- *PEN Products or other prison industry products*
- *Printing services above \$500*
- *Items or services procured on an encumbered purchase order contract*
- *Advance payments, except as authorized by IC 4-13-2-20(a)and(b)*
- *Items that could be more economically or effectively procured by use of competitive bidding or quotations*
- *Personal items and alcoholic beverages*
- *Any other items required to be purchased through ePro, as defined in the STREAMLINING Delegation of Purchasing Authority Program, which is available at www.in.gov/idoa/3341.htm.*

6.4.10.42 Other Restrictions

- *The authorized level of the account shall not be exceeded.*
- *SDO officers do not have authority to sell, dispose, trade-in or exchange property without IDOA approval.*
- *Refunds or rebates received should be included on the Report of Collections as noted in Chapter 7, Accounting for Revenue.*
- *Sales Tax – see 6.4.7.2.*

- *Dues and subscriptions in the agency's name may be purchased from SDO funds.*
- *Cannot repeat purchases of same item from a vendor in a 3 month period to avoid bidding/quote process required for that item.*
- *Should not split payment to avoid Single Purchase Limit.*

6.4.10.5 SDO Record Retention

All copies of both SF49068 and SF47911 should be retained at the agency in a permanent file until the LPN is closed.

6.4.10.6 Amount of SDO Advance

Whenever a SDO fund is established, money is removed from a Treasurer of State bank account, thus, not being invested. Therefore, consideration should be given to the size of the SDO fund. If an agency is not using the total SDO advance within one or two months, the SDO advance is too large and should be reduced. If an agency is reimbursing the total value of the advance more than once monthly, an increase might be warranted.

6.4.10.7 Interest Earned on SDO Account – Purchase Discounts

If the SDO fund is in an interest bearing account, any interest earned is to be deposited as interest revenue in the general fund. However, if the SDO advance is from a fund that, by statute, may retain interest earned from investments, the interest should be deposited as interest revenue in the fund accounting for the SDO advance.

Take advantage of any discounts offered. The SDO officer has the duty to pay SDO claims in a timely fashion. Any penalties, interest or other charges paid by the governmental unit may be the obligation of the responsible official or employee.

6.4.10.8 Debit Cards

Debit cards may be used by an agency to make payments from SDO accounts provided the following criteria are observed. Credit cards may not be utilized without the authorization of the Department of Administration.

- *A designated employee must be responsible for the use of the card.*
- *Purposes for which the debit card may be used must be specified.*
- *Debit cards should not be used to bypass the state's procurement system.*
- *Supporting documents such as paid bills and receipts must be available.*

6.4.10.9 Change in SDO Officer

If an agency, after submitting SF49068 to the IDOA, is approved to transfer the authority for an SDO fund to another officer, the following tasks should be completed prior to the new officer assuming this responsibility.

- *Reconcile to both checking account and SDO advance on old officer expiration date.**
- *New officer must review and accept both reconciliations.*
- *File new officer's signature with bank.*
- *Assure that new officer is familiar with single purchase limit and types of expenses allowed.*

** Reconciliation should be same as required monthly reconciliations.*

6.4.10.10 Accounting for SDO Funds

All monies in the SDO account must be accounted for at all times, both on the ENCOMPASS financial accounting system and in any manual processes.

6.4.10.10.1 ENCOMPASS Financial Accounting System/Reimbursements by AOS

All SDO fund disbursements must be included on the ENCOMPASS financial accounting system, whether or not paper checks are printed from the system or manually generated. These entries must occur no later than the last day of the month the checks are created. Individual payments must be entered into Accounts Payable in a similar fashion as non-PO vouchers. If manual checks are used, Record Only should be selected in order to prevent duplicate payments.

Disbursements can be selected for reimbursement through the system, which will generate a printed SDO Reimbursement form. A second copy of this form should be printed and attached to agency documentation for future reference, audits, etc. All documentation items must agree to the reimbursement request. Attach travel receipts to an 8 ½ by 11 page to prevent loss in files.

6.4.10.10.2 Documentation for SDO Reimbursement

. Original travel receipts are required to be attached to the SDO Reimbursement form; other receipts are to be retained at the agency (see ¹itemization law in 6.1.2). It is important that paid invoices be obtained for every disbursement. A fully itemized invoice or receipt lists the vendor or company name and address, date supplied or service performed, number of units, item unit cost, description of product or service performed and the total cost. Staple small receipts to a piece of paper and enter the vendor name and item description if it does not appear on the receipt. Do not pay a statement balance or balance forward without an itemization and determination that it was not paid previously. An itemization summary page will be generated by ENCOMPASS and can be used to retain documentation.

6.4.10.10.3 Processing of SDO Manual Checks

All manual checks must be serially pre-numbered by the printing supplier and include the agency name, State of Indiana. Blank check forms should not be accessible to persons other than those authorized to prepare or supervise the check writing process. Checks should never be signed unless payee and amount has been completed and approved. Voided or damaged checks should be rendered non-negotiable and filed for subsequent inspection or audit. If manual checks are used, a manual check register is required.

Prior to issuing an SDO check, check vendor inquiry in ENCOMPASS. If no vendor identification number appears, the vendor must complete State Form 53788 prior to payment of the vendor invoice. From the date of ENCOMPASS go-live, 1099 reporting will be determined at the vendor level and is no longer the responsibility of the individual agency.

Be sure to include all applicable information on the face of the check, including invoice or account number in "memo" section. On the invoice, note the date paid and check number. If not entering immediately into ENCOMPASS, post the check date, check number, payee, and amount to the manual check register. Calculate and enter the remaining check register balance. Insufficient funds charges are the responsibility of the assigned officer; do not exceed the available balance.

Checks to vendors should be mailed without allowing them to return to the persons who approved the transaction for payment. File the paid invoices and receipts in a pending reimbursement file. Separate files may be maintained for 1099 reportable and non-reportable documents. When the transaction entry is made to ENCOMPASS, you will need to complete the appropriate chartfields. You might want to file back-up documents by LPN#, major expense category, and payment ID# assigned by ENCOMPASS.

6.4.10.10.4 EFT/ACH Deposits of SDO Reimbursements

SDO reimbursements will be deposited in the SDO bank account assigned to the SDO Officer through an automated clearing house (ACH). A remittance advice will be sent to the agency for inclusion in SDO records.

6.4.10.10.5 Reconciliations of SDO Accounts

At least monthly, the following reconciliations must be performed for the SDO fund:

- Reconciliation of the ENCOMPASS check register to the bank balance.
- Reconciliation of the SDO advance to the ENCOMPASS check register balance.
- If manual SDO checks are used, reconciliation of the SDO manual check register balance to the ENCOMPASS check register balance.

6.4.10.10.6 ENCOMPASS Reconciliation to Bank Statement

The ENCOMPASS system includes pages to reconcile bank statements with ENCOMPASS payment information. All SDO checking accounts must be reconciled monthly within ENCOMPASS..

- Compare bank transactions entries in ENCOMPASS to the transaction on the bank statement
- Enter the date the transaction occurred at the bank as the Reconciliation Date
- Create the Check Register report for the period of the bank statement, print it, review the report, and attach it to the bank statement.
- Create the Reconciliation of SDO Advance report as of the period end of the bank statement, print it, review the report, and attach it to the bank statement.

6.4.10.10.7 SDO Advance Reconciliation to ENCOMPASS Check Register

At all times, the un-reimbursed disbursements plus any advances to office cash plus the SDO checking account balance must equal the local purchase advance. If the reconciled SDO advance is less than the amount originally advanced, the SDO officer may be personally responsible for the amount needed to balance the advance. This reconciliation of the SDO advance must be formally documented at

least monthly. The best control is provided when the reconciliation is prepared or reviewed by staff independent of the functions of preparing checks or maintaining the check register.

A sample SDO Advance Reconciliation is provided at the end of this chapter. The reconciliation identifies the local purchase authority number, special disbursing officer, date prepared, and the preparer and reviewer, as applicable. Instructions for the reconciliation are as follows:

- Enter the total SDO Advance as shown on the LPN. The amount is shown for the asset object, identified by the four digit local purchase number preceded by 11.
- Enter the ENCOMPASS check register balance as of the date reconciled.
- List the amount advanced to each cash fund. Name the custodian responsible for each. The amounts listed for cash funds remain the same from month to month unless additional advances are issued or accounts are closed.
- List the pending SDO reimbursement vouchers for which reimbursement has not yet been received. Provide the document number and amount of each.
- List the disbursements that have not been included on reimbursement vouchers. Enter the check number, date and amount for each. Identify any travel advances.
- Investigate any differences between the SDO advance and the total of the ENCOMPASS check register balance and the listed advances and unreimbursed disbursements.

6.4.10.10.8 Outstanding Checks

IC 4-10-10 requires that checks which have been issued and outstanding for two years after December 31 of the year in which they were written are considered cancelled. If this exists with an SDO account and the amount has been reimbursed, issue an SDO check to the AOS, crediting the SDO expenditure account.

6.4.10.10.9 Manual Check Register Reconciliation to ENCOMPASS Check Register

If manual checks are used, the balance in the manual check register must equal the balance in the ENCOMPASS check register.

After the ENCOMPASS transactions have been reconciled to the bank statement, use the Reconciliation of SDO Advance report and the Check Register report from ENCOMPASS to reconcile with the manual check register.

6.4.10.10.9 Local Office Cash Funds

Local office cash funds may be established to facilitate payments for small routine office expenses such as postage due or for cash drawer change purposes.

6.4.10.10.10 Establishment and Accountability for Cash

Issue a check from the SDO fund payable to the employee who will be responsible for the cash (custodian). This employee should adhere to the following guidelines:

- Keep cash in the agency office in a locked cash box stored in a locked safe or cabinet.

- *Make all disbursements in cash, requiring from the person receiving cash either a purchase receipt or cash receipt (if purchase not yet made).*
- *Keep all receipts, invoices, or other paid items separate from the cash for better internal control.*
- *When reimbursement is necessary, submit paid receipts or invoices to the Special Disbursing Officer.*
- *Upon acceptance of the disbursement receipts/invoices, the Special Disbursing Officer will issue a check payable to the custodian, to be cashed and placed in the locked cash box. If an advance, such as start-up funds, be sure to note as such on SDO checking account record.*

At all times, the un-reimbursed disbursements plus the cash on hand must equal the cash advance. On a monthly basis, this reconciliation should be documented and, if possible, independently verified.

If an SDO has issued a check to a cash fund, he/she is responsible for oversight of those cash funds and for ensuring that any expenditures are included in ENCOMPASS. When processing a reimbursement request through ENCOMPASS, all receipts should be attached to the agency copy of the request and kept on file.

6.4.10.10.11 Multiple SDOs in an Agency

The agency director may request several local purchase authorizations, with different employees as special disbursing officers, for the following reasons:

- *Each SDO officer is responsible for the assigned local purchase authority, for entering all expenditures into ENCOMPASS, and for both reconcilements of his/her individual banking account.*
- *The various SDO funds established may have different authorized expenses and single purchase limits.*
- *Each SDO established may be authorized to incur expenses for a different fund (or project).*

6.5 APPENDICES

6.5.1 Chart of Expense Accounts

6.5.2 Expense Related Reports

Recommended Delivered ReportsAccounts Payable>Reports>Voucher Reconciliation> various aging reports

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6.5.3

SDO Reconciliation Examples (2)

DEPARTMENT OF ENCOMPASS

RECONCILIATION OF SDO ADVANCE

As of March 31, 2008

Local Purchase Number: 000501151000
 Special Disbursement Officer: 10000456789 Jane Doe
 Advance from Fund: 10040 Encompass General Fund
 Bank Account ID: STIND-CHASE-1234
 Bank Account: 074000010-*****3456

Total SDO advance \$1,200.00

Check register balance at 3/31/08 320.97

Plus: Advances to petty cash funds:

<u>Custodian</u>	<u>Amount</u>
Bob Smith, Columbus	300.00
Kris Love, Kokomo	<u>200.00</u>
	500.00

Plus: Pending SDO reimbursement requests:

<u>Request Number</u>	<u>Date</u>	<u>Amount</u>
100000207	03/25/09	83.72
100000234	03/26/09	<u>243.07</u>
		326.79

Plus: Payments not yet on reimbursement request:

<u>Check Number</u>	<u>Date</u>	<u>Status</u>	<u>Amount</u>
0000000226	3/26/09	Unreconciled	3.57
0000000228	3/27/09	Reconciled	<u>48.67</u>
			52.24

Total SDO advance reconciled \$1,200.00

Variance 0.00

Prepared by: M123456 Mark Doe Date: 04/05/2009

Approved by: _____ Date: _____

EXAMPLE – SDO CHECK REGISTER -- ENCOMPASS

<div> <div>Bank Code: BANK1</div> <div>Bank Account: 192309466 (LPF)</div> <div>Bank Object: 113448</div> <div>Reconciliation From: 05/01/1900 Thru: 12/31/2009</div> </div> <div>SDO CHECK REGISTER</div> <div>Balance From Previous Check Register Report: \$0.00</div>									
SetID	Date	Reference	Name	Debit	Credit	Status(R)	Reconciled	Status(P)	Balance
00640	12/04/2003	0000000001	INDIANA DEPARTMENT OF CORRECTION	0.00	75.00	UNR		P	-75.00
00640	07/02/2007	0000000002	STATE OF INDIANA	0.00	7,767.90	REC		V	-75.00
00640	07/06/2007	SDO #104	STATE OF INDIANA	0.00	7,767.90	UNR		P	-7,842.90
00640	07/13/2007	L344800105	STATE OF INDIANA	0.00	1,384.01	UNR		P	-9,226.91
00640	08/20/2007	L344800106	STATE OF INDIANA	0.00	2,250.48	UNR		P	-11,477.39
00640	09/19/2007	L344800107	STATE OF INDIANA	0.00	2,758.39	UNR		P	-14,235.78
00640	10/17/2007	L344800108	STATE OF INDIANA	0.00	1,381.35	UNR		P	-15,617.13
00640	11/19/2007	L344800109	STATE OF INDIANA	0.00	1,014.60	UNR		P	-16,631.73
00640	12/18/2007	L344800110	STATE OF INDIANA	0.00	982.31	UNR		P	-17,614.04
00640	01/15/2008	L344800111	STATE OF INDIANA	0.00	901.00	UNR		P	-18,515.04
00640	02/15/2008	L344800112	STATE OF INDIANA	0.00	1,123.92	UNR		P	-19,638.96
00640	03/20/2008	L344800113	STATE OF INDIANA	0.00	916.05	UNR		P	-20,555.01
00640	04/11/2008	L344800114	STATE OF INDIANA	0.00	2,573.81	UNR		P	-23,128.82
00640	04/18/2008	L344800115	STATE OF INDIANA	0.00	661.23	UNR		P	-23,790.05
00640	05/19/2008	L344800116	STATE OF INDIANA	0.00	822.31	UNR		P	-24,612.36
00640	06/20/2008	L344800117	STATE OF INDIANA	0.00	1,353.73	UNR		P	-25,966.09
00640	11/06/2008	L344800118	STATE OF INDIANA	0.00	451.71	UNR		P	-26,417.80



Manual Check Register to ENCOMPASS Check Register

DEPARTMENT OF ENCOMPASS

SDO MANUAL CHECKING ACCOUNT RECONCILIATION

As of March 31, 2008

Local Purchase Number: 000501151000
Special Disbursement Officer: 10000456789 Jane Doe
Advance from Fund: 10040 Encompass General Fund
Bank Account ID: STIND-CHASE-1234
Bank Account: 074000010-*****3456

Balance from Manual Ck. Register \$387.84

Add: ENCOMPASS Deposits not yet in Manual Register 100.00

Less: Checks not yet in ENCOMPASS system

<u>Date</u>	<u>Ck. #</u>	<u>Amount</u>
3/23	224	63.30
3/26	226	<u>3.57</u>

66.87

Reconciled balance manual check register \$320.97

ENCOMPASS Register Balance \$320.97

Variance -0-

Prepared by: _____ Date: _____

Approved by: _____ Date: _____